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THE KROGER CO.

ANNUAL REPORT

1953

Officers

JOSEPH B. HALL, *President*

WILLIAM E. CARTER, *Vice-President*

JACOB E. DAVIS, *Vice-President*

JOHN M. LOCKHART, *Vice-President*

FRANK M. GRIEME, *Treasurer*

ROGER B. CONANT, *Assistant Treasurer*

BRYAN J. WEBER, *Assistant Treasurer*

THOMAS T. OYLER, *Secretary*

CHARLES L. ARNOLD, *Assistant Secretary*

SYDNEY G. WILSHIRE, *Assistant Secretary*

Directors

JOHN C. BAKER
President, Ohio University

WILLIAM E. CARTER
Vice-President

JACOB E. DAVIS
Vice- President

WALTER A. DRAPER
Chairman of the Board,
The Cincinnati Transit Co.

CHARLES W. DUPUIS
Chairman of the Board,
The Central Trust Company

HARRY J. GILLIGAN
Proprietor, John J. Gilligan & Son

JOSEPH B. HALL
President

CARL M. JACOBS
Partner, Frost & Jacobs

A. T. KEARNEY
Partner, A. T. Kearney & Co.

JOHN M. LOCKHART
Vice-President

CHARLES M. ROBERTSON
Retired

STANLEY M. ROWE
President, The Shepard Elevator Co.

DONALD M. WOOD
Partner, Childs & Wood

President's Letter

The Kroger Co. earned $12,528,664 in 1953, or $3.40 per share. This exceeds 1952 by $418,577 or $0.10 per share. Before-tax earnings for 1953 were $29,309,664, up 5% over 1952. Federal income and excess profits taxes totaled $16,781,000 or 57.3% of before-tax income. Included in this amount is $1,639,000 of excess profits tax.

Kroger sales in 1953 were $1,058,608,651, an increase of $6,758,716. Retail food prices have been slightly lower than in 1952 due principally to lower prices of beef, fresh fruits and vegetables.

Operating and general expenses in 1953 were $148,802,687, an increase of $10,550,422 or 7.6% over 1952. Salaries and wages, including manufacturing, increased $7,349,179 or 6.4%.

Our cash balance at the year-end was $41,792,719. The company has no outstanding bank debt. Working capital was $68,707,575 and the working capital ratio was 2.1 to 1. Inventories on December 26, 1953, were $81,196,446, an increase of $4,053,097. Food supplies have been and are in abundance and inventories are being maintained on a strict turnover basis.

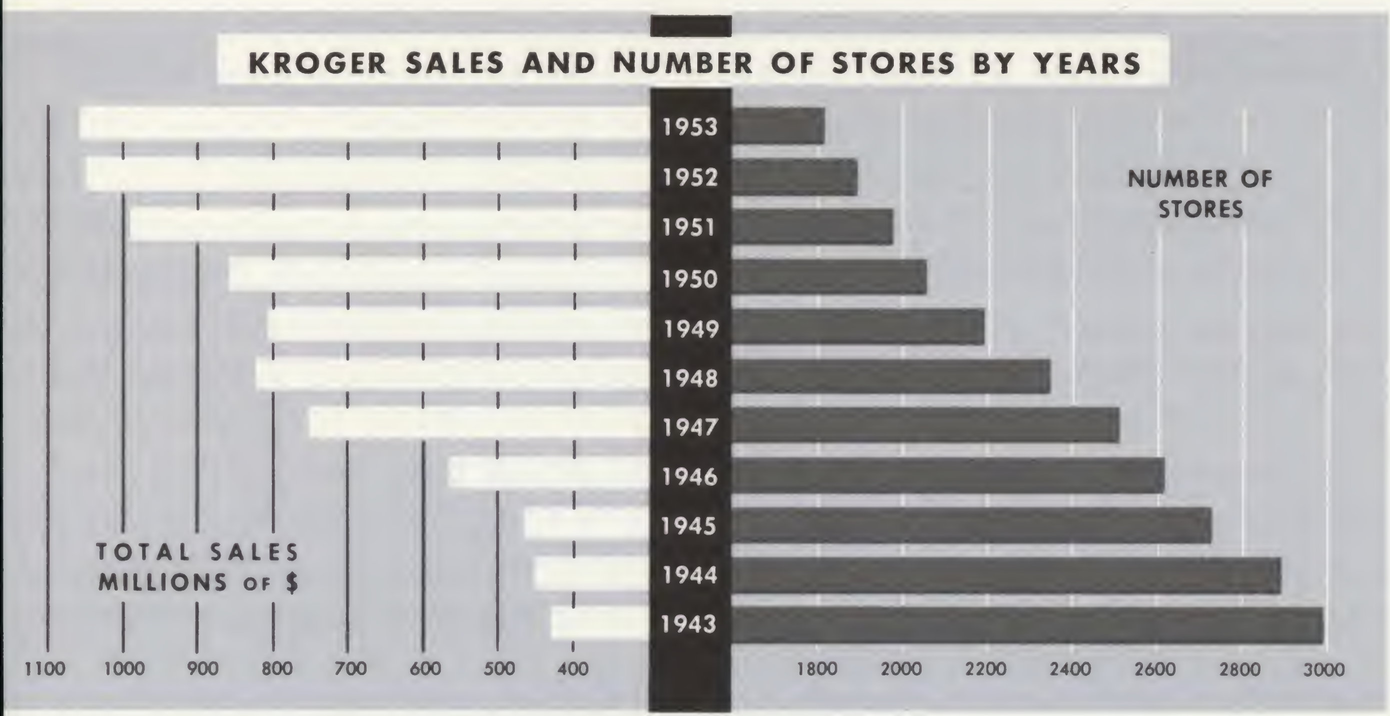
Our aggregate net worth at the year-end was $104,646,321 or approximately twice that at the end of World War II. This improvement is due to the reinvestment of a part of each year's income, which is necessary if the company is to keep abreast of developments in the industry and continue its record of growth.

Capital expenditures in 1953 totaled $12,113,616. The company opened 143 new, remodeled and relocated stores. The new warehouse at Charleston, West Virginia, has been occupied and the one at Wichita, Kansas, is nearing completion. Office and perishable food facilities are

being added to our Cincinnati, Ohio, warehouse. Normal capital replacements were made to our transportation fleet and our manufacturing plants. Capital expenditures for stores were $7,684,876; for warehouses, $2,066,190 and for all other purposes, $2,362,550. Depreciation and amortization were $8,706,721.

The Kroger Employees' Savings and Profit Sharing Plan now has 16,995 members, or 95% of those eligible. Fund assets at December 26, 1953, totaled $10,254,229, of which $5,840,899 came from personal savings of employees and $4,413,330 from company contributions of before-tax profits over the past two and one-half years. We believe the plan has increased profit consciousness among our employees and thus is contributing to improved results.

At the year-end, the company added $1,150,000 to The Kroger Company Charitable Trust. Since this amount would have been subject to excess profits tax, the net cost to shareholders was less than six cents per share. The balance in the fund is now $1,834,767.



The complaint of the Federal Trade Commission against the company, charging that it had been knowingly receiving certain price discriminations and asking that it be ordered to discontinue such practices, has been dismissed by the Commission.

In 1953 the Manufacturers & Merchants Indemnity Company earned $64,971. A considerable amount of unprofitable business was canceled and replaced by profitable accounts. Loss reserves were substantially increased and were determined to be fully adequate in a recent examination by the Superintendent of Insurance of the State of Ohio.

Joseph Bappert, a vice-president and director since 1940 and a loyal member of the Kroger organization for forty years, has retired for reasons of health. Mr. Bappert, who started as a clerk and worked in almost every department of the company, made a notable contribution to the growth and progress of Kroger. Through the years his guidance and advice earned him the respect and admiration of his associates.

Dr. John C. Baker, president of Ohio University, was elected a director to succeed Mr. Bappert. C. E. Armstrong, who has been with the company since 1928, was appointed General Manager of Merchandising.

Although 1953 sales and before-tax earnings reached new highs, we have not been satisfied with the trend in recent months. Competition in the past year became increasingly severe. In many areas, it has taken the form of "give-away" merchandising featuring stamp plans, premiums, and similar "something for nothing" approaches. Although this type of competition makes an immediate impact, we do not believe it is good business in the long run for either the retailer or the consumer.

Our new store program for 1953 did not fully meet our expectations, due in part to delays in securing materials and to labor difficulties within the construction industry. In some areas the rush to build shopping centers is leading to duplication of facilities. We are exercising care to secure only prime locations. A considerable number of new stores are now in the planning and construction stages. The new store program for 1954 contemplates the expenditure of substantially greater sums than in 1953.

The rising cost of doing business has as yet shown little tendency to level off. Transportation, supplies, rentals and other costs follow wage rates upward. There is an industry trend to longer store hours which add to our costs. As we enter 1954, competition appears to be even more aggressive. We propose to meet these conditions with an expanded store program, better merchandising, and improved operating methods. These objectives will receive our major attention in 1954.

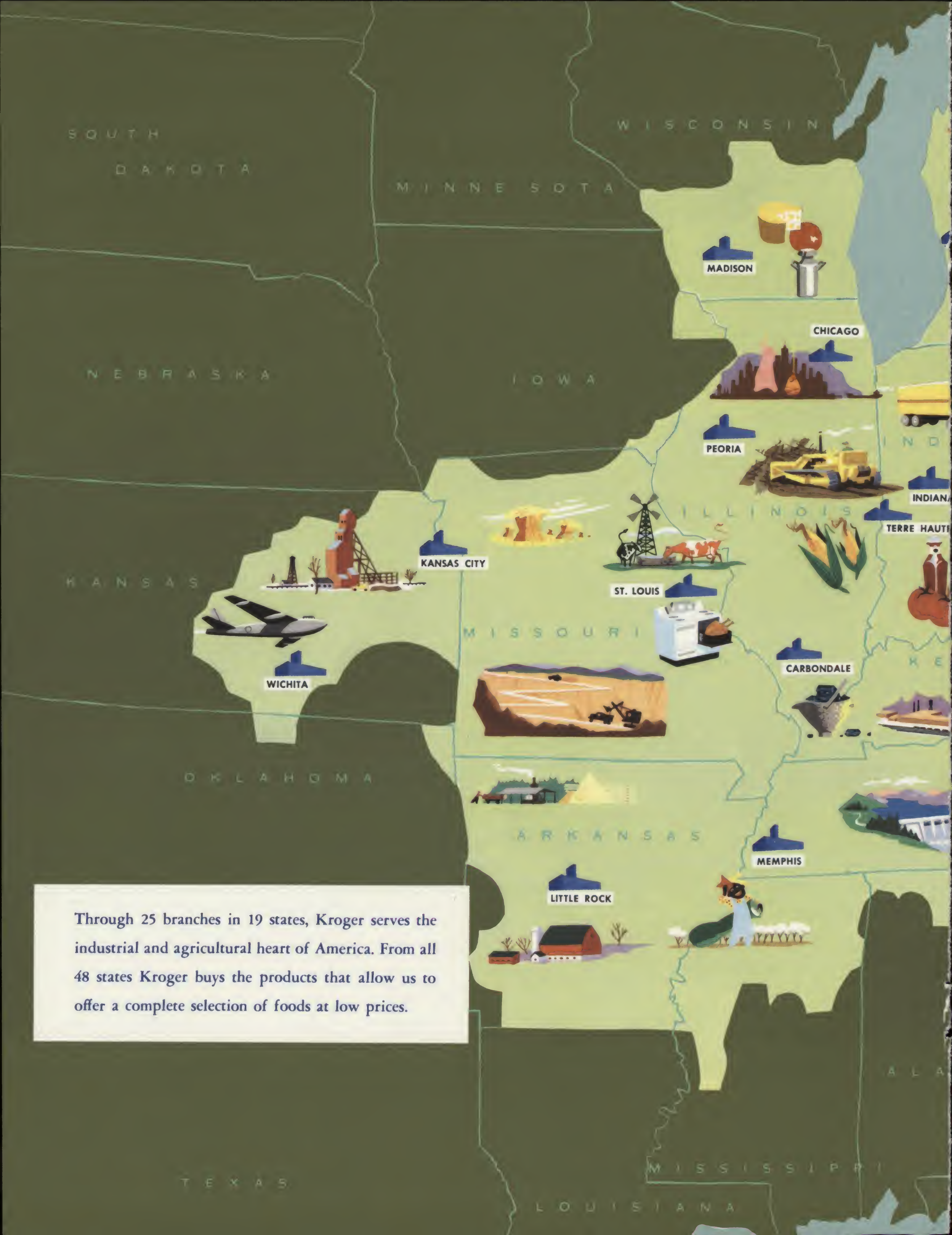
Current forecasts indicate that general business conditions may not be as favorable this year as they were in 1953. We believe, however, that consumer purchasing power will remain high and that our business should be satisfactory.

Respectfully submitted,

Joseph B. Hall

February 5, 1954

President



Through 25 branches in 19 states, Kroger serves the industrial and agricultural heart of America. From all 48 states Kroger buys the products that allow us to offer a complete selection of foods at low prices.

MICHIGAN
GRAND RAPIDS
DETROIT
NEW YORK
VT
N.H.
MASS
CONN
R I
CLEVELAND
TOLEDO
PENNSYLVANIA
PITTSBURGH
FORT WAYNE
COLUMBUS
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DAYTON
MD
DE
CINCINNATI
OHIO
WEST VIRGINIA
CHARLESTON
LOUISVILLE
ROANOKE
VIRGINIA
TENNESSEE
NASHVILLE
NORTH CAROLINA
SOUTH CAROLINA
ATLANTA
GEORGIA
FLORIDA
KROGER
KROGER
Live Better For Less

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Consolidated Balance S

Assets

Cash			$ 41,792,719
Receivables			3,695,722
Inventories of merchandise (Note 1)			81,196,446
Store and general supplies			2,976,111
Prepaid insurance, rent and taxes			1,481,624
Total Current Assets			131,142,622
Investment in subsidiary insurance company at cost (Note 2)			1,776,361
Land, at cost or less		$ 2,337,219	
Buildings, at cost or less	$14,757,050		
Machinery and equipment, at cost	71,396,347		
	86,153,397		
Less allowance for depreciation	38,039,573	48,113,824	
Total Fixed Assets			50,451,043
Total Assets			$183,370,026

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heet—December 26, 1953

Liabilities

Accounts payable		$ 26,862,579
Accrued expenses		16,218,673
Provision for federal taxes, current and prior years		19,353,795
Total Current Liabilities		62,435,047
Long-term notes (Note 3)		14,000,000
Employees' benefit fund		2,288,658

Capital

Preferred capital stock, par $100:			
First preferred, 6%, 279 shares outstanding	$27,900		
Second preferred, 7%, 150 shares outstanding	15,000	$ 42,900	
Common capital stock, without par value (Note 4):			
Authorized 5,000,000 shares			
Outstanding 3,681,279 shares		33,933,059	
Accumulated earnings (Note 3)		70,670,362	104,646,321
Total Liabilities & Capital			$183,370,026

Consolidated Statement of Income

Years Ended December 26, 1953 and December 27, 1952

	1953	1952
Sales	$1,058,608,651	$1,051,849,935
Cost of sales	880,496,300	885,662,283
Operating and general expenses	148,802,687	138,252,265
Total	1,029,298,987	1,023,914,548
Income before federal taxes on income	29,309,664	27,935,387
Federal taxes on income	16,781,000	15,825,300
Net income	$ 12,528,664	$ 12,110,087

Consolidated Statement of Accumulated Earnings

Year Ended December 26, 1953

Accumulated earnings—December 27, 1952		$65,501,630
Total net income for 1953	$12,528,664	
Dividends declared in 1953	7,359,932	5,168,732
Accumulated earnings—December 26, 1953		$70,670,362

Notes to Financial Statements

1. Inventories of merchandise are valued in part on the LIFO basis and in part at the lower of cost or market.

2. The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire preferred stock and 66⅔% of the common capital stock of that company, and is carried on the books at cost. At December 26, 1953, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to $1,391,243. Total assets of the insurance company, so determined amounted to $7,272,073 consisting principally of cash, U. S. Government securities and other marketable securities aggregating $6,591,497. Operations of the insurance company for the year 1953 resulted in a profit of $64,971.

3. Notes bearing interest at 3.1% mature October 1, 1971. Annual prepayments of $700,000 without premium, are required beginning October 1, 1961. Any of the notes may be prepaid at the option of the company at premiums provided in the loan agreement. Payments of cash dividends are limited to earnings subsequent to December 26, 1953, plus $28,575,400 of accumulated earnings existing on that date.

4. Options granted to 319 officers and executives for the purchase of 170,439 shares of Kroger common stock were in force at December 26, 1953. The option price of 131,834 shares was $32.25. Option prices of the balance of 38,605 shares range from $33.25 to $38.25. Options for 8,398 shares were exercisable at December 26, 1953. Options for 8,101 shares were exercised during 1953 at prices ranging from $32.25 to $36.00.

Report of Certified Public Accountants

To The Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary company as of December 26, 1953, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary company at December 26, 1953, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

Cincinnati, Ohio
February 5, 1954

Financial and Operating Statistics

	1953	1952	1951	1950	1949
SALES	$1,058,608,651	$1,051,849,935	$997,086,223	$861,242,642	$807,739,440
NET INCOME	$ 12,528,664	$ 12,110,087	$ 12,657,940	$ 13,087,542	$ 13,636,564
NET INCOME PER SHARE	$3.40	$3.30	$3.45	$3.56	$3.71
DIVIDENDS PER SHARE	$2.00	$1.90	$1.85	$1.875	$1.75
NUMBER OF SHAREHOLDERS	25,914	26,088	26,254	26,144	27,041
NUMBER OF STORES	1,810	1,891	1,978	2,054	2,190
NUMBER OF EMPLOYEES	29,105	28,396	26,864	25,775	26,161
CASH	$ 41,792,719	$ 40,078,625	$ 30,128,288	$ 25,869,452	$ 20,300,337
MERCHANDISE INVENTORIES	81,196,446	77,143,349	79,170,757	72,223,385	64,380,938
NET WORKING CAPITAL	68,707,575	65,884,745	61,528,850	49,918,283	51,406,979
ACCUMULATED EARNINGS	$ 70,670,362	$ 65,501,630	$ 60,373,344	$ 54,513,661	$ 48,316,510
NET WORTH	104,646,321	99,216,265	94,090,179	88,230,496	82,033,545
NET WORTH PER SHARE	$28.41	$27.00	$25.60	$24.01	$22.32

Kroger

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